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Brazil

Grain and Feed

Wheat Update

2004

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Report Highlights:

Wheat production for 2004 is forecast at 5.7 million tons, up 700,000 tons from the previous forecast. Imports for the 2003/04 international trade year were 5.6 million tons, virtually unchanged from the previous forecast, while marketing year imports are forecast at 5.3 million tons. Marketing and trade year imports for 2004/05 were lowered to 5.0 million tons and 4.8 million tons, respectively.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

Wheat

Wheat PS&D

Brazil							
Wheat							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2002		10/2003		10/2004	MM/YYYY
Area Harvested	2043	2043	2464	2464	2600	2700	(1000 HA)
Beginning Stocks	900	796	656	886	507	662	(1000 MT)
Production	2925	2925	5851	5851	5000	5700	(1000 MT)
TOTAL Mkt. Yr. Imports	6727	7036	5300	5300	5500	5000	(1000 MT)
Jul-Jun Imports	6631	6996	5559	5558	5500	4800	(1000 MT)
Jul-Jun Import U.S.	656	656	369	368	0	100	(1000 MT)
TOTAL SUPPLY	10552	10757	11807	12037	11007	11362	(1000 MT)
TOTAL Mkt. Yr. Exports	6	6	1400	1375	100	300	(1000 MT)
Jul-Jun Exports	6	6	1378	1375	100	300	(1000 MT)
Feed Dom. Consumption	450	450	200	200	400	300	(1000 MT)
TOTAL Dom. Consumption	9890	9865	9900	10000	10200	10200	(1000 MT)
Ending Stocks	656	886	507	662	707	862	(1000 MT)
TOTAL DISTRIBUTION	10552	10757	11807	12037	11007	11362	(1000 MT)

Production

Brazil is again expected to harvest a large crop this year with Post forecast production at 5.7 million tons. Many private and government analysts in Brazil assert that healthy prices and high yields for last year's crop led to increased plantings this year. This is an especially common theme in the media, which suggests that Brazil is well on its way to wheat self-sufficiency. However, Post contacts in southern Brazil report that the increased plantings last year were almost entirely due to very dry conditions at the time of winter crop plantings thereby forcing producers to plant wheat instead of winter corn. The chart below illustrates that total winter grain area and production have increased greatly over the past five years. However, this past year winter wheat area increased an estimated 236,000 hectares while winter corn area fell an estimated 208,000 hectares.

Winter Grains Production and Area					
(1,000 HA & 1,000 tons)					
	1999/00	2000/01	2001/02	2002/03	2003/04
Wheat Area	1,468	1,725	2,043	2,464	2,700
Wheat Production	1,600	3,250	2,925	5,851	5,700
Winter Corn Area	2,908	2,462	2,885	3,562	3,354
Winter Corn Production	3,925	6,456	6,180	12,797	10,518
Sorghum Area	496	486	418	800	900
Sorghum Production	904	773	1,900	2,100	2,100
Total Area	4,872	4,673	5,346	6,826	6,954
Total Production	5,280	10,479	11,005	20,748	18,318

In a recent visit to Rio Grande do Sul and Parana, Post found that most producers are, expectedly, unhappy with current wheat prices as prices for last year's crop were about 10 percent higher than for this year's as of late September. Some producers still have crop from last year which is weighing on prices with current quotes in Rio Grande do Sul at R\$390 per ton and R\$410 per ton in Parana, compared to the government set minimum price of R\$400 per ton.

Despite the Post increase in production for 2003/04 of 700,000 tons to 5.7 million tons, Post remains below the CONAB forecast of 6.1 million tons. Dry weather retarded growth in many parts of Parana and Rio Grande do Sul. Excessive rain in mid-September hurt quality but helped growth, yet some yield impact lingered and fields observed in eastern Parana showed plant growth lagging that of last year. Furthermore, there is still time for damaging frosts to reduce expected harvest area and quality for the crop that is still in the field. With 50 percent of the Parana crop harvested, CONAB forecasts production at 3.2 million tons. However, Post forecasts the Parana crop at 3.0 million tons due to high incidence of brusone and lower yields.

Trade

Total July/June imports for 2003/04 were 5.6 million tons, according to official Brazilian import statistics. Therefore, the Post estimate is virtually unchanged from the previous forecast. Argentina supplied 88 percent of Brazilian imports, which is 9 percent greater than the previous year. U.S. wheat imports totaled 368,000 tons with the majority received from July to November of 2003. Increased competition from Argentina and greater domestic supplies have kept U.S. supplies the last several months priced about U.S.\$25 per ton above competing supplies. U.S. wheat is competitive when priced no more than \$5 per ton above Argentine supplies.

Brazilian Wheat & Product Imports by Source July/June (1000 tons)		
Exporter	July 2002/June 2003	July 2003/June 2004
Wheat		
Argentina	5,213	4,587
United States	656	368
Canada	110	113
Paraguay	83	100
Poland	341	48
Ukraine	128	0
Kazakhstan	81	0
Uruguay	14	0
Switzerland	18	0
Russia	10	0
Pre-mix flour (GE*)		
Argentina	311	302
Flour (GE)		
Paraguay	5	13
Uruguay	7	12
Argentina	18	9
Peru	1	6
Total Wheat & Product	6,996	5,558

Source: Ministry of Industrial Development and Foreign Trade, and USDA for

U.S. export figure.

* In Grain Equivalent

Post forecasts 2003/04 October/September imports at 5.3 million tons, which is unchanged from the previous forecast. Despite the large Brazilian crop last year, which was nearly 3 million tons larger than the previous year, Argentine wheat imports are only down 600,000 tons from October 2003 to September 2004 compared to the previous year. This is due to the fact that Argentine wheat is arriving in Rio Grande do Sul at under U.S.\$150 per ton. Argentine wheat is also being imported into Sao Paulo and the Northeast at prices lower than domestic supplies.

Post forecasts 2004/05 trade year imports at 4.8 million tons and local marketing year imports at 5.0 million tons. A second large domestic crop will keep import demand down but the protein of this year's crop is lower than last year's. Therefore, neighboring Argentine wheat will be imported at near the same level as 2003/04. U.S. exports are forecast at only 100,000 tons due to competition from cheaper Argentine and domestic supplies and the government program to subsidize transport of wheat from southern Brazil to the Northeast where most U.S. imports occur (see Policy section below for more information).

The Ministry of Agriculture recently allowed imports of wheat from Russia. According to regulations for importation, wheat shipments that arrive in Brazilian ports will need to be treated with Methyl Bromide. In addition, Brazil will not allow unloading of wheat shipments from Russia in the Southern ports close to the Brazilian wheat producing areas. Previously, it was required that the wheat be treated in Russia as well as Brazil. The government recently revised this requirement at the request of the Russians at the same time the Russians placed a new restriction on meat imports from Brazil. However, given current freight rates, little-to-no Russian wheat is expected to be imported.

There is a wide divergence of opinion among the trade and analysts regarding the potential for wheat exports this year. Last year Brazil exported 1.4 million tons, which were the first significant wheat exports in history. With a second consecutive bumper harvest, many contacts in Rio Grande do Sul, where nearly all of last year's exports originated, believe as much as 800,000 tons of exports are likely this year. However, some cooperatives in Rio Grande do Sul and Parana recognize that the quality of wheat will be lower than last year and international prices are not as favorable for medium to low quality supplies. Last year Brazilian exports went to Europe and North Africa. However, larger crops in the EU and FSU will mean less import demand and greater exports to North African markets, making Brazilian exports less likely. Nevertheless, Post has increased the export forecast from our previous estimate to 300,000 tons, compared to 1.4 million tons in 2003/04, due to the possibility of some shipments following the large wheat harvest and prior to the soybean harvest. Last year, exports from the port of Rio Grande occurred in January, February, and March as prices fell and storage space was needed for summer corn and soybeans. Traders in Sao Paulo agree that a few hundred thousand tons are likely to be shipped.

Policy

The Brazilian government recently announced a package of intervention measures aimed at supporting prices following the large harvest. The government will subsidize freight costs from Southern Brazil to the Northeast in an attempt to encourage northeastern mills to buy more Brazilian supplies from the states of Santa Catarina, Parana, Rio Grande do Sul, and Mato Grosso as opposed to supplies from Argentina, the United States, and Canada. The mechanism is known as a premium for harvest sales (PEP, in Portuguese) and about 800,000 tons (50,000 tons per week) of wheat is available to be sold to the Northeast and North of

Brazil under this program. The buyer of wheat receives a set premium (currently R73 per ton) to compensate for transport from the South. In theory, this premium should be the difference between the government set minimum price in the south and the price of imported wheat to the Northeast and basically translates into a transportation subsidy. However, the program has had little success in its first week as the government "transport subsidy" was only about half that needed to entice Northeast mills to buy from the south. The government will also directly purchase 200,000 tons of wheat from the interior of Brazil where prices are under the government set minimum price. A program is also under consideration to provide options contracts for 600,000 tons with options due in January and February. Finally the government will provide subsidized credit for storage of wheat. Despite the resources committed to these programs, contacts suggest that they will have minimal impact on prices, which are currently below the minimum price in some regions.